

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

10-05-07

11:38 AM

Application of Pacific Gas and Electric Company
To Revise Its Electric Marginal Costs, Revenue
Allocation, and Rate Design. (U 39 M)

Application 06-03-005
(Filed March 2, 2006)

**COMMENTS OF ICE ENERGY, INC.
ON RATE DESIGN ISSUES**

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Date: October 5, 2007

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In accordance with the directives contained in the Supplemental Scoping Memo and Assigned Commissioner's Ruling Updating Issues List, Schedule and Categorization issued on August 22, 2007 ("Supplemental ACR"), Ice Energy, Inc. ("Ice Energy") respectfully submits the following comments on rate design issues. As directed, Ice Energy's comments are limited to issues that relate to two of the ten specific categories that are enumerated with Roman numerals in the Issues List attached as Attachment A to the Supplemental ACR under the general heading of "Rate Design Issues." For convenience and ease of reference, only two rate design issues of great importance to Ice Energy are addressed. Since they are of much less specific importance to Ice Energy, the remaining eight issues should be deemed "not applicable" for purposes of these comments. For the relevant categories, Ice Energy has structured its comments as specifically directed in the ACR.

I. INTRODUCTION

In its Comments on Assigned Commissioner's Ruling Requesting Comments on Dynamic Issues ("ACR") that were filed on August 13, 2007 ("Comments"), Ice Energy addressed only Attachment A, Section II, "Rate Options," and Section X, "Relationship to other Demand Response Programs." In the Rate Options Section, Ice Energy's Comments proposed adding an issue number 5:

- How should dynamic pricing tariffs relate to permanent load shifting ("PLS")¹ to encourage greater customer adoption of PLS technology?

¹ Permanent load shifting occurs when a customer moves energy usage from one time period to another on an on-going basis

In the Relationship to other Demand Response Programs section, Ice Energy's Comments proposed adding an issue number 4:

- How should dynamic pricing relate to other demand response programs to enhance the benefit of PLS to the CAISO?

The Supplemental ACR did not adopt either of the two specific issues proposed by Ice Energy regarding the Rate Design category of issues set forth in the Attachment A to the ACR. However, it did adopt the issue proposed by Ice Energy for the "Enabling Technology" Section of Appendix A, namely:

- How should Dynamic Pricing be bundled with PLS technology to attain the maximum benefit of the combination?

In the ACR, the Commission addressed Ice Energy's issues globally, as follows:

"Ice Energy suggested issues related to permanent load shifting technology. Dynamic pricing can provide incentives to permanently shift load and invest in load shifting technology, so most of the topics that Ice Energy identified can be addressed within the context of other issues. One issue specifically related to permanent load shifting technology was added to the Enabling Technology section." (Mimeo, p. 4).

Ice Energy is very appreciative of the Commission's recognition of the importance of PLS, and these comments are therefore submitted to further assist the Commission on the various positive interactions between dynamic pricing and PLS during the course of this proceeding.

The Commission held a Workshop on September 7, 2007, at which participants discussed the report prepared by the Brattle Group for the Demand Response Research Center titled, *"Rethinking Rate Design."*² The concept of the PLS was mentioned nowhere in the Report. In Ice Energy's view, the subtitle of the Report, *"A Survey of Leading Issues Facing California's Utilities and Regulations,"* misses the mark entirely. It is therefore not surprising that the list of issues attached to the Agenda for the Workshop likewise made no mention of PLS. It appears that no notes or summary of the Workshop have been distributed, and PLS was not mentioned or discussed in any way.

² *Rethinking Rate Design, a Survey of Leading Issues Facing California's Utilities and Regulators.* The Brattle Group, Prepared by Demand Response Research Center, August 7, 2007.

II. THE DISCUSSION OF RATE DESIGN SHOULD ADDRESS THE RELATIONSHIP OF DYNAMIC PRICING TO PLS.

The key policy issues that the Commission should consider in this phase of the proceeding are that dynamic pricing and all forms of demand response, including PLS, are compatible and mutually reinforcing. The linkage is not disputed or in need of additional information or analysis. In fact, the California Energy Commission (the “CEC”) has very recently addressed the subject directly in its *Draft 2007 Integrated Energy Policy Report*³ as follows:

“The Energy Commission’s load management authority would be a valuable policy tool for the state to bridge the gap between the current level of DR in California and its full cost-effective potential. In a joint IEPR and Electricity Committee workshop on demand response efforts on June 5, 2007, EnerNoc, Ice Energy, and Strategen Consulting encouraged the Energy Commission to use its load management authority to better achieve the state’s DR objectives. At the same workshop, Southern California Edison, San Diego Gas and Electric Company, and Pacific Gas and Electric Company all indicated support for the Energy Commission’s effort to invoke its load management authority.

There are two areas in which this policy tool may be particularly effective. One is modifying the default tariff, which could be changed to a dynamic tariff that reflects the higher cost of using electricity during critical peak hours and provides an incentive for lowering peak demand. The other is the adoption of technologies that enable customers to respond to the opportunities created by dynamic pricing tariffs.” (p. 104).

Ice Energy recommends addressing the widely recognized positive linkage between dynamic pricing and PLS in the same direct way that the CEC has done. It is true, as the Commission stated in the Supplement ACR, that most of the discussion “can be addressed within the context of other issues.” However, relegating the subject to the “Enabling Technology” section risks downplaying the importance of the connection of technology to tariff policy.

³ 2007 Integrated Energy Policy Report, Draft Committee Report, October 2007.

III. THE RATE DESIGN DISCUSSION SHOULD ADDRESS THE RELATIONSHIP OF DYNAMIC PRICING TO BENEFIT THE CAISO.

The second key policy issue that the Commission should consider in this phase of the proceeding is the fact that coupling dynamic pricing with demand response, such as PLS, can be of great benefit to the California Independent System Operator (“CAISO”). The CEC put emphasis on this point four years ago in its Report to the Legislature, which was required to be submitted jointly with the Commission by SB1976,⁴ as follows:

“Demand response stimulated by dynamic pricing can substitute for additional generation, enabling the CAISO to balance supply and demand. The CAISO has been closely following the introduction of dynamic pricing at the retail level and should be able to easily incorporate the impact of these programs into its markets and operations.” (p. 10).

The importance of dynamic pricing and demand response, such as PLS, as it relates to the CAISO is also beyond dispute or in need of additional information or analysis. Indeed, the CAISO has itself addressed the subject directly in the context of the Commission's active demand response proceeding (R.07-01-041)⁵ as follows:

“However, technologies are evolving and what appear to be permanent load shifting technologies may also be dispatchable. Thus, the CAISO urges the Commission to allow some flexibility in its policies for technologies that prove to be crossover demand response/load shifting technologies. In other words, a technology may generally be used for load management purposes, but may also be dispatchable and provide capacity benefits and grid services. For example, a thermal energy storage (“TES”) technology may be dispatchable if the TES unit is addressable down to the individual unit and can switch between the A/C cooling and TES cooling mode. In large numbers, such a product could benefit the CAISO in its ability to provide, for example, regulation service (if so approved). Collaborative demonstrations of such technologies between the CAISO, CEC and CPUC/utilities would be beneficial and should be encouraged, where and when appropriate.” (Mimeo, pp. 3-4).

⁴ *Feasibility of Implementing Dynamic Pricing in California, Report to the Legislature*, October 2003.

⁵ Reply Comments of the Independent System Operator on Utility Proposals to Augment their Demand Response Programs for 2007 and 2008, September 22, 2006.

IV. CONCLUSION

As it stands, the list of issues in the Rate Design section of Attachment A to the Supplemental ACR omits direct consideration of the relationship of dynamic pricing tariffs to PLS. Last year the Commission initiated an Order Instituting Rulemaking referred to above to develop protocols for evaluation of all forms of demand response, including both dynamic pricing and PLS.⁶ The Commission also very recently issued a Resolution highlighting the importance of the interaction between dynamic pricing tariffs and PLS.⁷ The Resolution makes it very clear that dynamic pricing is recognized by the Commission to be a critical success factor for PLS:

“Energy Division agrees . . . that proper tariff structure is helpful toward encouraging cost effective participation in permanent load shifting and recommends that the Commission direct the IOUs to analyze in their next rate design proceeding the impact of their rate proposals on PLS technology, with the goal of establishing general purpose dynamic/TOU/time-variant rates that provide a customer incentive to invest in PLS technologies.” (Mimeo, p. 10).

Thus it is clearly imperative that this proceeding directly and explicitly consider the relationship of proposed dynamic pricing tariffs to PLS. For the reasons set forth above, the Commission should rank the relationship between dynamic pricing and PLS near the forefront of policy consideration where it belongs.

Respectfully submitted,



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Date: October 5, 2007


⁶ See, Rulemaking Regarding Policies and Protocols for Demand Response Load Impacts, Cost-Effectiveness Methodologies, Megawatt Goals and Alignment with California Independent System Operator Market Design Protocols, R.07-01-041 (Issued January 4, 2007).

⁷ See, Resolution E-4098, adopted July 26, 2007.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document on all parties of record in the above captioned proceedings by serving an electronic copy on their email addresses of record and, for those parties without an email address of record, by mailing a properly addressed copy by first-class mail with postage prepaid to each party on the Commission's official service list for this proceeding.

This Certificate of Service is executed on October 5, 2007, at Woodland Hills, California.



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